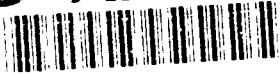


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THESIS

CONGRESS AND THE NAVY BUDGET: THE IMPACT OF
THE BUDGET PROCESS ON THE FY 1990 NAVY
PROGRAM BUDGET

by

Jonathan E. Vanscoy

December, 1990

Thesis Advisor:

Richard Doyle

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Congress and the Navy Budget: The Impact of the
Budget Process on the FY 1990 Navy Program Budget

by

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Lieutenant, United States Navy
B.A., University of Maryland, University College, 1985


Submitted in partial fulfillment of the
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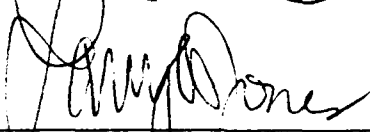
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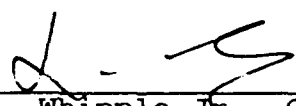
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I. INTRODUCTION

This thesis is a case study of the effect of Congressional actions on the FY 1990 Navy budget. The FY 1990 budget followed an unusual path to its final destination. Along this path, several events took place that had a significant impact on the Navy's FY 1990 budget. This paper will explore four of those events to determine exactly what impact they had on the operating budgets for FY 1990 of the Department of Defense (DoD), and the Navy.

The first event this thesis will explore is the actions of the Authorizing and Appropriating Committees in both the House and Senate. This is an event that takes place every year, but it had some special twists during the development of the FY 1990 budget. The initial defense budget request was submitted by President Reagan on January 9, 1989. This request asked for \$315.2 billion in budget authority (BA) and \$303.0 billion in outlays for budget function 050, National Defense. Of this amount, \$305.6 billion in BA and \$293.8 billion in outlays would go to the Department of Defense, as part of subfunction 051. The remainder of the BA and outlays within the 050 function were for Atomic Energy and Defense related expenditures, subfunctions 053 and 054 respectively. The Navy request totaled \$97.8 billion in BA for FY1990, or 32.1 percent of the total 050 BA. [Ref. 1]

After President Bush took office he received some warning that Congress was not likely to approve a budget for defense that was in the range of President Reagan's final request. In order to overcome this obstacle the President met with members of Congress in a Bipartisan Budget Summit. This summit led to an agreement and an amended budget request. The Bipartisan Budget Agreement (BBA) allowed for a defense budget with \$305.5 billion in BA and \$299.2 billion in outlays. [Ref. 2]

This bipartisan agreement made the actions of the Authorizing and Appropriating Committees more difficult, but interesting at the same time. With the total dollar figures agreed upon by both the Democratic and Republican leadership, debate would not center around the size of the budget, but rather the mix of dollars and programs.

The second significant event that took place during the FY 1990 budget process was a technical estimating difference between the Congressional Budget Office and DoD. This difference centered on how to predict defense outlays from a specified BA base. When the administration submitted the revised budget for defense, their figures for BA and outlays matched those agreed to in the summit [Ref.3]. These figures for outlays were calculated using DoD outlay rates. However, when CBO computed the outlays it used a different set of equations. The result was an estimation that DoD outlays would be approximately \$3.8 billion higher than the summit agreement allowed [Ref. 4].

This difference in outlay estimation became the source for significant controversy and ill will between the administration and Congress. It took several months before this problem could be resolved. The final resolution of the estimating differences did not leave all the individuals involved feeling good. The resolution of the issue involved, among other things, a significant shift in the defense budget request. BA was shifted from certain fast spending accounts to slower spending ones. Some major DoN appropriations were impacted. Some individuals felt that gimmickry and compromise were used, and that the essence of the budget agreement was violated. [Ref. 5]

The third major event that shaped the FY 1990 defense budget was the Byrd Amendment. This amendment was added to the Department of Transportation appropriations bill to increase spending to fight the war on drugs. The amendment called for an increase in spending of \$3.2 billion from the 1989 level. Of this \$3.2 billion, \$1.3 billion in BA and \$0.8 billion in outlays would come from defense. [Ref. 6]

The final event this paper will explore is sequestration. Congress was unable to pass a budget for FY 1990 that met the Gramm-Rudman-Hollings (GRH) deficit reduction goals before the beginning of the fiscal year. As a result, the sequestration process in the GRH bill took effect in October. Until Congress completed its reconciliation bill on November 22nd, the defense budget was subject to significant reductions

associated with sequestration. Even after reconciliation was completed it was not sufficient to displace the sequester entirely. The result was DoD and DoN lost important budget resources even under this relatively small partial sequester.

When the initial sequester order was signed by President Bush, he did not exempt the military pay accounts. This decision raised much concern in the administration and in Congress. The only other time a sequester had taken place, in 1986, President Reagan had exempted the personnel pay accounts. Not protecting these accounts meant that the military would have to reduce sharply the numbers of personnel in the service and/or slow promotion rates. Many felt that the President was trying to pressure Congress, by not exempting these accounts, and to force them to get an acceptable budget. [Ref. 7]

The Congressional budget process for FY 1990 was colorful and interesting because of the events described above and explored in this paper. This paper is structured to reflect the chronological order in which these events took place. There is much overlap in these events, as the process of each would happen concurrently with the other events.

There were other events that may have had an effect on the Navy budget for FY 1990. These four developments stand out as notable and discrete hurdles requiring negotiation. Because the Navy has little control over its budget once it is presented to Congress, this paper will focus on Congress and

DoD as the primary parties in the negotiation process. The paper will trace specific dollar amounts to Navy accounts or programs to determine the effect each of these events had on the Navy.

II. THE ACTIONS OF THE AUTHORIZING AND APPROPRIATING COMMITTEES

The initial Defense budget submitted by outgoing President Reagan allowed for two percent real growth in the defense budget for FY 1990. This equated to \$315.2 billion in budget authority (BA) and \$303.0 billion in outlays for budget function 050 and \$305.6 billion in BA and \$293.8 billion in outlays for budget function 051, which funds DoD. [Ref. 1]

On April 25th, Secretary of Defense Cheney unveiled a revised defense budget proposal. The revised budget contained cuts from the initial proposal to bring it in accordance with the Bipartisan Budget Agreement (BBA) which President Bush had negotiated with the leadership of Congress. The revised figures for defense were \$305.5 billion in budget authority (BA) and \$299.2 billion in outlays for budget function 050. For budget function 051 the totals were \$295.6 billion in budget authority and \$289.8 billion in outlays. [Ref. 3]

A. REVISED PROPOSAL

The revised defense budget required cuts of approximately \$10 billion in BA and \$4 billion in outlays. In order to meet this requirement the administration made reduction choices that reflected their priorities. These priorities were not in agreement with the priorities of many individual legislators.

A battle over the nature of the defense cuts would ensue in both houses of Congress.

The President made cuts in the areas of weapons production, research and development, and troop endstrength. The new proposal called for slowing production rates of current weapons to develop replacement weapons. In the Army this meant a phase out of the Apache and AHIP helicopters and slowing production of the Blackhawk helicopter. This would mean a savings of \$346 million in BA for the three helicopters. [Ref. 8]

In the budget revision presented to Congress, the Navy took the largest hit of all the services with a reduction of \$3.9 billion in BA. The Navy outlay reductions were the second highest at \$.9 billion. The President's proposed reductions for Navy weapons systems included dropping one LOS ANGELES class submarine, ending production of the F-14D fighter and slowing production of the F/A-18 aircraft. The savings from this proposal would be \$714 million, \$365 million and \$156 million respectively. The Air Force would lose production of the F-15 fighter, at a savings of \$93 million. [Ref. 8]

The revised defense budget request also included slowing production of new weapons systems that were having technical or budget problems. This included slowing production of the Air Force's B-2 bomber for a savings of \$885 million. For the Navy this meant slowing production of the Seahawk helicopter

and the T-45 training plane, saving \$205 million and \$264 million respectively. The Army would have to slow production of the ATACMS long range artillery missile to save \$46 million, and the ADATS anti-aircraft missile, saving \$149 million. [Ref. 8]

The administration also canceled programs that had a limited military mission. Included in this area were funds to continue reasearch and development of an aerospace plane, \$200 million savings, and disbanding of the WC-130 hurricane hunter squadrons. Additionally, they proposed cancelling the Marine Corps V-22 Osprey aircraft completely. This measure would save \$1.27 billion in FY 1990 and many billions more in follow on years. This proposal was offset somewhat by purchasing more replacement Sea Stallion helicopters. This would retain adequate troop lift capabilities and only cost \$300 million. [Ref. 8]

Reduction of the size of the active Navy fleet was another proposal in the revised budget request. The proposal would limit the number of aircraft carriers to 14. This would occur as a result of the retirement of the USS CORAL SEA when the USS ABRAHAM LINCOLN is brought on line. This would save \$53 million. Seven guided missile destroyers built in the 1950's and 60's would also be retired, saving \$74 million. Finally, 74 P-3 patrol aircraft would be retired for a savings of \$68 million. [Ref. 8]

The new defense proposal would cut \$991 million from the Strategic Defense Initiative (SDI) research program. This proposal would also redirect the focus of SDI toward the "Brilliant Pebbles" approach. [Ref. 8]

Table 1 summarizes the cuts proposed by President Bush by military department and appropriation title. [Ref. 3]

TABLE 1
FY 1990 BUDGET AMENDMENT

	BA	Outlay
Reagan Request		
050	315.2	303.0
051	305.6	293.8
Bush Amended Request		
050	305.5	299.2
051	295.6	289.8
Adjustment by Military Department		
Army	-1.7	-0.9
Navy	-3.9	-0.9
Air Force	-2.7	-1.0
Defense Agencies	-1.3	-0.7
Defense Wide	-0.5	-0.3
Adjustment by Title		
Military Personnel	-0.7	-0.6
Operation & Maintenance	-1.5	-1.2
Procurement	-5.4	-0.7
RDT&E	-1.5	-0.9
Military Construction	-0.5	-0.1
Other	-0.6	-0.4

B. CONGRESSIONAL COMMITTEE REACTIONS

Since the budget totals for discretionary spending had been agreed to by all parties as part of the BBA, the primary battle in the defense authorization bill was over specific program choices. During the Reagan years, passage of defense bills normally involved a brawl between the administration and

Congress. The conflict was usually over arms control provisions and/or the total spending figure considered adequate for defense. Neither of these issues figured prominently in the FY 1990 authorization debate. Rather, the debate centered on the outlay implication of various defense programs and the need to conform to the BA-outlay requirement stipulated in the BBA. [Ref. 9]

As negotiation on the FY 1990 bill began, battle lines were more narrowly drawn. One of the primary fights was in the area of strategic weaponry. The debate over which new ICBM system to develop and how much to fund for SDI research were at the forefront. [Ref. 9]

In prior years the ICBM issue had been divided along party lines, with Democrats backing Midgetman and Republicans rail-mobil MX. This year there was a danger of both missiles being lost. Many Democrats, noting changes in Eastern Europe, wanted to kill both programs. Republicans were making their choices based on which program they supported, and would align with Democrats to try and kill the one they opposed. SDI had lost much of its White House and Congressional support with the departure of President Reagan. [Ref. 9]

House Armed Services Committee Chairman Les Aspin favored supporting the administration's program terminations as a measure of good faith in making tough cutting choices. His staff found only about \$1 billion of fat in the request that could be used to fund add-on programs. By June 17th Aspin

stated he had already received requests for add-ons totalling \$6.8 billion. [Ref.9]

Without even considering the add-on programs, many legislators were struggling to reinstate programs that had been cut from Reagan's original proposal. This battle was mostly one of constituent jobs rather than defense strategy. The ending of production of F-14s had significant opposition because of the closing of the Grumman plant on Long Island. This one plant closure would have cost approximately 5600 jobs. The cancellation of the Marine Corps' V-22 Osprey was opposed on similar grounds, and by the strong Marine contingent on Capitol Hill. [Ref.9]

In order to find the funds for their own programs congressmen took aim at other projects such as the B-2 bomber, SDI and the Trident submarine. A feeling was in the air that one could be for a strong defense and still cut enough money from these big tickets to pay for pet projects.

By the 5th of August both the House and Senate had passed authorization bills for defense. The bills differed significantly in program and funding composition. The House had provided funding for the research and procurement of the V-22 aircraft. Additionally, they added funds to continue procurement of the Navy F-14 fighter. The Senate bill had allowed only for research and development of the V-22. The Senate bill included four criteria to be met before DoD could proceed to procurement of the V-22. These four tests were:

(1) viability for commercial use, (2) commercial interest, (3) export potential and (4) cost effective low-level production rates [Ref. 1]. The Senate bill supported the administration's request to cancel the F-14 program.

In order to pay for the additional funding of these two programs, the House cut money from the strategic program requests. The House bill cut the administration's request for the B-2 program by \$1 billion, to \$3.7 billion. They cut the rail garrison MX by \$0.5 billion, to \$0.6 billion, and cut the entire request for Midgetman, which was close to \$100 million. The Senate authorized \$4.4 billion for the B-2 and left both the ICBM programs at the levels requested. SDI was an additional area of discrepancy, with the House authorizing \$3.1 billion and the Senate \$4.5 billion. [Ref. 10]

Though the Senate bill closely resembled the administration's proposal it had several amendments opposed by the administration. The B-2 program was a case in point. Senator Cohen from Maine offered an amendment that stated the Senate was only committed to the first few bombers, not the entire fleet of 132. This amendment also instructed DoD to consider cruise missiles as alternatives to the B-2 program. An additional amendment on the B-2 required the Air Force to secure a better warranty from the manufacturer. [Ref. 10]

While the Senate largely supported the request for SDI and the ICBM programs, they did not pass without some opposition. Amendments were brought, and defeated, that would have cut

ICBM development and diverted funds from SDI to drug programs. There were additional amendments of little substance that passed with little opposition. These amendments ranged from requiring specific reports on arms control to requiring the purchase of only US produced beef. Such amendments had little effect on actual dollar amounts. [Ref. 10]

The appropriations committees followed much the same pattern as the authorization committees had. The Senate version of the bill more closely reflected the administration's request than did that passed by the House. However, on some of the more controversial areas of the bill, SDI in particular, there appeared to be padding in the Senate bill which would allow for an acceptable compromise with the House. The House version of the appropriations bill was passed on the 4th of August and the Senate version on September 29th. [Ref. 11]

C. RESOLUTION AT CONFERENCE

Both the authorization and appropriations bills went to conference and were passed in November. The most colorful conference and the one that set the stage was the authorization conference. The final result was not a bill that made everyone happy, but one that was loaded with compromises to attain enough votes for passage. The strategic arena is where the bulk of controversy remained and where the administration's request took the largest cuts.

The conferees authorized \$3.8 billion for SDI splitting the approved levels in both houses down the middle. For the new ICBM program they authorized funding for both the rail-garrison MX and the Midgetman, but told DoD to find \$150 million in reductions from the combined \$1.2 billion request. The Navy took a reduction of \$300 million in its Trident II missile program, lowering it to \$1.3 billion. The B-2 program was funded at \$4.3 billion, but language was left in that stated Congress was not committed to fullscale production. [Ref. 12]

D. THE NAVY PORTION

The Navy budget did very well overall in both the authorization and appropriations conferences. Both conferences approved more than was requested for DoN programs. The reason for this was that the Navy had relatively little program involvement in the strategic programs cut by Congress. Additionally, the revitalization of the F-14 and V-22 aircraft programs bolstered the Navy budget despite the fact that no funds had been requested. [Ref. 1]

The authorizations conference approved funding the F-14 to \$1.45 billion for production and modernization. The V-22 was funded to \$255 million for further development. The Sea Stallion helicopter, which Secretary Cheney proposed as the alternative to V-22, was funded at a reduced level of \$254 million. [Ref. 12]

Other areas of the Navy budget survived well also in the authorization conference, receiving only minor reductions if any at all. The \$651 million requested for modernizing the USS CONSTELLATION was approved. The conferees compromised on \$3.53 billion for construction of five Arleigh Burke class destroyers. This was a reduction of \$67 million from the request. Money was added to increase the purchase of Standard missiles by \$44 million and the purchase of Phalanx guns by \$15 million. [Ref. 12]

The Seawolf class submarine was approved for production in 1991 and the last 62 of the Los Angeles class were approved at \$763 million, a cut of \$43 million. The conferees cut the request for Mark 48 torpedoes by \$55 million to \$439 million. Mark 50 torpedoes received the entire \$269 million requested. [Ref. 12]

Minesweeping capabilities were enhanced by the approval of \$342 million for three new oceangoing ships. Three smaller minesweepers were approved at \$282 million, adding to the one that was requested. Finally, amphibious forces received a shot in the arm with the approval of one LSD-41 class landing ship at \$229 million. The request for air-cushioned landing craft was increased from nine to 12, at \$250 million. [Ref. 12]

The authorization and appropriation phases of the FY 1990 budget process were more complicated than in previous years. There were few extra dollars to fund non-requested legislative

initiatives. Because of the BBA and the limits it imposed, legislators had less discretion to add programs, and were forced to move money within the confines of the BA and outlay totals provided in the summit agreement.

Table 2 summarizes the defense BA totals approved by the Authorizing and Appropriating Committees and the Navy's portion of those totals. [Ref. 1]

TABLE 2
SUMMARY OF COMMITTEE ACTIONS
ON FY 1990 DEFENSE BUDGETS

	050 BA	051 BA	DoN BA
HASC Bill	304.9	295.7	98.6
SASC Bill	305.7	296.3	98.1
Auth Conf	305.3	295.3	101.3
HAC Bill	304.6	295.3	101.5
SAC Bill	305.6	295.9	97.3
App Conf	303.7	294.0	101.2

Table 2 shows that the size of DoN appropriations do not vary proportionally with either the 050 appropriations or the 051 appropriations. There is no direct correlation between what the entire Defense Department receives and the size of the Navy's share of that pie. The BA amounts for 050 vary only \$2 billion between any of the bills while the Navy portion varies \$4.2 billion between the HAC and SAC bills.

A major reason for the increase of the Navy portion in both conference bills is BA-outlay mismatch issue. This issue

will be discussed in detail in chapter III. In essence, BA was required to be shifted from fast outlay accounts to slower spending accounts. The Navy benefited from this transfer in appropriations as some of their slower spending accounts, primarily the overhaul of the USS ENTERPRISE, were funded. [Ref. 13]

Another anomaly that is apparent in this table is that the appropriations conference bill is approximately \$1.9 billion below the BBA. The cause of this can be traced primarily to funding of the war on drugs. National defense had to give away \$1.18 billion to an emergency drug funding package, \$300 million transferred to the Coast Guard and \$125 million to help the three Andean countries [Ref. 14]. This drug funding issue will be discussed in detail in chapter IV.

III. TECHNICAL ESTIMATING DIFFERENCES BETWEEN THE DEPARTMENT OF DEFENSE AND THE CONGRESSIONAL BUDGET OFFICE

In March of 1989 the President, his cabinet and advisors, and the joint leaders of Congress agreed to convene a negotiating group to try to establish a budget framework for fiscal year 1990. The group was composed of the primary decision makers in the budget process from both the legislative branch and the administration. On April 14th the group produced a Bipartisan Budget Agreement (BBA), that was agreed to by the President, and the majority and minority leaders of both houses of Congress. [Ref. 2]

This document stated budget authority and outlay levels for three discretionary appropriations categories, including national security. For defense, referred to as function 050 in legislative budget parlance, the agreed upon levels were \$305.5 billion in new Budget Authority and \$299.2 billion in outlays. A footnote to the BBA stated that "Congressional enforcement of these discretionary levels in the legislative process will be based on CBO scoring." [Ref. 2]

Since these levels had been agreed upon by all of the key players in the budget process, it would seem that from this point forward a relatively smooth path for the defense budget was assured. But this was not to be the case. On April 25th Secretary of Defense Cheney published a revised DoD budget

request. Within a few days there was disagreement between CBO and the Department of Defense regarding the proper technique to use to determine the appropriate relationship between budget authority and outlays for defense accounts. A CBO memo dated April 27th outlined the differences between DoD and CBO in outlay estimates. [Ref. 15]

A. PAST PERFORMANCE

The exact amount of the difference in the outlay figure associated with \$305.5 billion in budget authority between these two offices is difficult to pin down. Frequently cited figures range from \$3.4 billion to \$3.8 billion, which amounts to approximately one percent of the FY 1990 defense budget. The result of the discrepancy was that both the administration and congressional leaders retreated to their corners to collect data in support of their positions on this critical issue.

One of the first pieces of data revlevant to this methodological conflict was produced by DoD and is displayed in Table 3. Table 3 compares past records of DoD and CBO predicting defense outlays. [Ref. 16]

From Table 3 it is unclear whether both forecasts were taken at the same time. But it can be seen that in all but three of the years of data collection CBO has estimated outlays higher than DoD. The table also shows that DoD is

more likely to underestimate outlays while CBO is more likely to overestimate outlays. This suggests that a compromise of both methods might be the most accurate formula to use for predicting outlays. Both CBO and DoD used the same outlay rates for predicting FY 1990 outlays as they had used to

TABLE 3
DEPARTMENT OF DEFENSE (051) OUTLAYS
(\$ in billions)

Budget Year Forecasts vs Actual			
<u>Fiscal Year</u>	<u>DOD</u>	<u>CBO</u>	<u>DOD-CBO</u>
1981	-1.9	+0.8	-2.7
1982 (Carter)	-5.6	-2.9	-2.7
1982 (Reagan)	-1.2	+5.3	-6.5
1983	+3.4	+5.2	-1.8
1984	+12.5	+11.9	+0.6
1985	+12.8	+14.3	-1.5
1986	-2.8	-4.1	+1.3
1987	-13.4	+1.1	-14.5
1988	-3.6	-2.8	-0.8
1989*	+2.5	+1.7	+0.8

* (first five months of data only)

predict FY 1989 outlays [Ref. 16]. The table shows that both estimates were in excess of actual outlays.

B. THE AREAS OF DISAGREEMENT

In a letter to Senate Budget Committee Chairman Jim Sasser, Secretary of Defense Dick Cheney addressed the differences between CBO and DoD outlay estimating procedures. This letter attacked the CBO estimates as being overly simplistic and defended the DoD estimates as more accurate given recent historical data. [Ref. 17]

Cheney's letter estimated the outlay problem at \$3.8 billion, the same figure used in the CBO memo. This letter

showed that the majority of the \$3.8 billion could be attributed to estimates of three major accounts. The first account affected is the Operations and Maintenance (O&M) account for all services. CBO's failure to use recent data to adjust estimates accounted for a difference of \$2.1 billion. The second series of accounts where disagreement was significant was the stock funds, where an estimating difference of \$1.0 billion was found. The final set of accounts with major DoD-CBO differences was Military Personnel, where the estimating problems accounted for \$0.3 billion of the total difference. [Ref. 17]

In the O&M accounts Cheney produced data that showed 95% of the \$2.1 billion in outlay differences could be attributed to eight separate appropriations. He also produced historical outlay rate data to justify DoD estimating techniques. Table 4 summarizes this data. [Ref. 17]

These data show that DoD estimations for 1990 appear to track the recent outlay experience in these accounts more closely than those of CBO. In half of the accounts shown, the CBO outlay rate for FY1990 exceeds the DoD projection by more than ten percent. The remaining accounts have less disparity but the amounts generated by these differences are significant. In each case the DoD estimate appears to more closely reflect actual historical experience.

TABLE 4
O&M OUTLAY RATES

<u>Navy (\$494M)</u>		<u>Marine Corps (\$229M)</u>		<u>Air Force (\$390M)</u>	
	<u>Percent</u>		<u>Percent</u>		<u>Percent</u>
1986	71.1	1986	72.1	1986	74.7
1987	67.7	1987	70.1	1987	70.7
1988	73.5	1988	73.1	1988	76.3
DoD 90	73.4	DoD 90	71.6	DoD 90	76.3
CBO 90	76.0	CBO 90	85.0	CBO 90	78.0
<u>Def Ag (\$176M)</u>		<u>Army Res (\$137M)</u>		<u>Navy Res (\$110M)</u>	
	<u>Percent</u>		<u>Percent</u>		<u>Percent</u>
1986	87.2	1986	80.0	1986	62.6
1987	85.1	1987	73.7	1987	61.0
1988	85.1	1988	72.9	1988	66.7
DoD 90	83.8	DoD 90	72.1	DoD 90	65.8
CBO 90	86.0	CBO 90	88.1	CBO 90	77.0
<u>Army Nat'l Gd (\$249)</u>		<u>A.F. Nat'l Gd (\$209M)</u>			
	<u>Percent</u>		<u>Percent</u>		
1986	80.6	1986	83.5		
1987	77.6	1987	78.8		
1988	75.9	1988	82.0		
DoD 90	75.2	DoD 90	81.9		
CBO 90	88.5	CBO 90	92.2		

The second area of contention in Cheney's memo was that of Revolving and Management Funds. In this set of accounts the Secretary of Defense claimed there was a difference of \$1.0 billion between CBO and DoD, accounted for by three factors: 1) different outlay rates applied to appropriated funds in the Stock Funds; (2) the effect of operating cash on Stock Fund outlays, and (3) CBO's added judgement factor.

CBO uses an O&M rate to project outlays from these appropriations, while DoD uses a purchase rate. Cheney admitted that many of the items in the Stock Funds are purchased by O&M appropriations, but that the process of obtaining these items is more similar to that of the procurement accounts, and therefore using a purchase rate is more realistic and more closely predicts actual outlays. Cheney states that CBO's first year outlay projection for FY 1990 in these accounts is \$334 million above the DoD estimate; this is largely offset by underestimating outlays from prior year's authority. The final result, according to Cheney, is that CBO has overestimated the FY 1990 outlays by \$.1 billion in this account. [Ref. 17]

Another area of disagreement involving stock fund outlays is the proper approach to the difference between sales and purchases by the Stock Funds and transfers from the Stock Funds due to excess cash. Revolving and Management Funds are meant to be self sustaining, and are to maintain enough cash for 11 days of operation. When the cash level falls below the

11 day minimum, prices are increased to customers to ensure adequate cash flow. The appropriation of money to the Stock Funds is to bring cash reserves to the 11 day minimum. Cheney points out that CBO fails to adjust for the increased prices and the additional cash generated. This inflow of cash acts as a negative outlay. The difference is approximately a \$.4 billion overestimation by CBO. [Ref. 17]

The final \$.5 billion difference between DoD and CBO in the estimation of outlays in the Stock Funds derives from a "judgement factor" added by CBO. DoD objected to the use of this adjustment because it felt it did not properly reflect the operating status of the Stock Funds. One reason CBO may have added that adjustment is because in two of the last three years they grossly underestimated the outlays of the Stock Funds. Table 5 shows the last three complete years and how Stock Fund outlay estimates by each of the agencies fared. In each of these years, DoD estimates were closer than those of CBO. [Ref. 17]

TABLE 5
STOCK FUND OUTLAY ESTIMATES

<u>Year</u> (<u>\$M</u>)	<u>DoD</u>	<u>CBO</u>	<u>Actual</u>	<u>DoD</u> <u>Diff</u>	<u>CBO</u> <u>Diff</u>
1986	2,124	817	2,877	-753	-2,060
1987	2,714	761	3,454	-740	-2,693
1988	1,359	1,876	1,021	338	855

The final set of accounts that Cheney singled out in his memo are those for Military Personnel. The problem with this set of accounts, according to DoD, is that CBO is applying the

same outlay rate for all four services, when recent historical data indicate that they outlay at different rates. Table six shows the current CBO rate estimate and the actual outlay rates of the past two years. [Refs. 3 and 17]

TABLE 6
MILITARY PERSONNEL OUTLAY RATES

<u>Service</u>	<u>CBO</u> <u>1990</u>	<u>DoD</u> <u>1990</u>	<u>Actual</u> <u>1988</u>	<u>Actual</u> <u>1987</u>
Army	96.0	94.0	95.3	95.3
Navy	96.0	95.9	97.7	96.5
Marine Corps	96.0	95.3	96.5	95.7
Air Force	96.0	95.8	96.1	97.5

Cheney claims that the more detailed figures used by DoD will save \$.3 billion in outlay projections [Ref. 17]. More than half of this would come from the first year outlay rate used in the Army Military Personnel account. This account has the largest amount of Budget Authority but the slowest expenditure rate. The remainder of the savings would be in the out year calculations of previously appropriated Budget Authority.

While these were the only three areas where Cheney used dollar figures to specify exactly where the differences in outlays existed, he did identify some other procedural differences that help to account for the remaining \$.4 billion. One such difference is the use of Budget Authority by CBO and Total Obligational Availability by DoD when applying outlay rates. [Ref. 17]

Budget Authority includes appropriations, borrowing authority, and contract authority, as permitted by law. Total

Obligational Availability is budget authority plus (or minus) any amounts transferred between accounts or funds. By using budget authority to predict outlays from previous years' appropriations, money that was transferred from one account that spends slowly to an account that spends out quickly - or vice versa - is not accounted for. Cheney indicated that approximately \$2.6 billion would be transferred in FY 1989 from slow spending accounts to faster spending accounts, thereby increasing outlays in 1989 and decreasing them in 1990 [Ref. 17].

The Cheney letter also noted that DoD divided certain accounts into sections based on spending rates, allowing DoD to more accurately predict outlays. CBO applies the same rate for all four services and for an entire account regardless of what the historical data show. One such account is Family Housing. DoD separates this account into Construction and Operation & Maintenance/Debt, while CBO combines them under one rate. Historical data shows the construction portion spending at 5% the first year, while the operations and maintenance portion spends out at 60% the first year. [Ref.17]

C. THE "BEAN COUNTER" MINI-SUMMIT

In order to resolve the issues involved in scoring the defense spending provision of the BBA, a "bean counter" mini summit was arranged by DoD Comptroller Sean O'Keefe [Ref. 18]. In attendance were members of the DoD and CBO staffs, as well as staffers from key members of the Congressional Committees

with oversight authority for the defense budget, including the Budget Committees, the Armed Services Committees and the Defense Appropriation Subcommittees. An initial meeting was held to determine what issues were causing differences in estimation of outlays and should be discussed at the summit. Table 7 lists the topics, issues and current approaches that were to be discussed as of 16 August 1989. [Ref. 19]

The two sides agreed to discuss thirteen issues at this summit. Within a month they had come to agreement on ten. Nine of the agreements were from the original list reflected in Table 7. One additional item was in the final agreement that was not listed among the original issues. This additional issue dealt the degree of accuracy for outlay predictions. Table 8 lists the agreements reached at the end of the mini-summit. [Ref. 20]

Most of the issues that Cheney had addressed in his letter to the Budget Committee Chairman were addressed and worked out at this summit. However, even after agreement on these issues was reached, it was decided that these rules would take effect for the FY 1991 budget process. They would not be used to resolve the FY 1990 conflict. [Ref. 21]

TABLE 7
MINI SUMMIT TOPICS

<u>Topic</u>	<u>Issue/Current Approach</u>
<u>BA/TOA Scorekeeping</u>	
1. Budget Year & Outyears	Should BA or TOA be used for outlay estimates CBO: BA. DoD: TOA.
2. Current Year	Should BA or TOA be used for outlay estimates? CBO: BA. DoD: TOA.
3. Prior Years	Should BA or TOA be used for outlay estimates? CBO: BA or unexpended balances. DoD: TOA.
4. Lapses	Should outlay rates be calculated using TOA adjusted for lapses? CBO: Make no adjustments for BA lapses. DoD: Adjust TOA for lapses before making estimates.
5. Reimbursable program for outlays	Should there be outlay rates for reimbursable programs? CBO: Not directly. DoD: Yes.
<u>Appropriation Scorekeeping</u>	
1. Prior Year Transfers	Should prior year transfers be scored using first year rates? CBO: Use first year outlay rate. DoD: Use rate from year appropriated.
2. Budget year transfers	Should the outlay rate be for the gaining or losing account? CBO: Use rate for losing account. DoD: Use rate for gaining account.
<u>Outlay Rates/Calculations</u>	
1. 100% expenditure rate	Should outlay rates assume lapses? CBO: No. DoD: Yes.
2. Reflect M-accounts	When annual M-account outlays exceed \$3 billion, should estimates reflect such spending? CBO: Yes, using an extra year outlay rate. DoD: Yes, using judgement adjustments based on unexpended balances.
3. Macro Title outlay rates	Should a single outlay rate be used for a block or title of accounts? CBO: Yes, for Milpers and Family Housing. DoD: No.

TABLE 7 (CONT'D)

- | | |
|--|--|
| 4. Outlay Rates
for
sub-accounts | Should outlay rates adjust for
sub-accounts?
CBO: No.
DoD: Yes, for Milpers, SCN and some "black " programs. |
| 5. Revolving Funds | Should the DoD approach be adopted?
CBO: Use O&M rate for BA, and judgement for operations.
DoD: Use purchase rate for BA, and cash position for operations. |

Other Issues

- | | |
|---------------------------|---|
| 1. Timing of
Estimates | Should both DoD and CBO make estimates
estimates in November?
CBO: Late January with 3 months of current year data.
DoD: November with prior year actuals. |
|---------------------------|---|

TABLE 8
MINI-SUMMIT AGREEMENTS

<u>Topic</u>	<u>Agreement</u>
<u>Outlay Rates/Calculations</u>	
1. 100% expenditure rate	CBO changed its approach and will reflect lapses in its outlay forecasts.
2. M-account	DoD changed and included an additional year in the outlay rates. This represents M account spending, replacing the judgement adjustments.
3. Macro title outlay	CBO will assign individual outlay rates to all appropriations based on past performance.
4. Revolving Funds	BA will expend at purchase rates. Outlay adjustments due to the cash position in the stock and industrial funds will be discussed further.
5. Outlay rates for sub accounts	Each Milpers and Family Housing appropriation has its own set of outlay rates. The two Air Force appropriations containing large amounts of compartmental programs will have two sets of outlay rates. CBO agreed with DoD outlay estimates for SCN.
<u>BA/TOA Scorekeeping</u>	
1. Current Year, Budget year, and outyears	In most cases, Budget Authority is used. TOA is used on an exception basis to reflect transfers and other unusual occurrences.

TABLE 8 (CONT'D)

- | | |
|-------------------------|--|
| 2. Prior Years | CBO will continue to use unexpended balances and DoD will use TOA for the prior years. DoD has established a forecasting model using unexpended balances similiar to CBO that was used when setting outlay rates. The outlay estimate for CBO and DoD was compared and all major differences were addressed. |
| 3. Reimbursable program | Reimbursable program will not be used. If major shifts occur in the size of the program, the outlay rate will be adjusted. |

Other Issues

- | | |
|-----------------------|--|
| 1. Timing of estimate | DoD will furnish CBO budget data on a timely basis. This will allow CBO and DoD time to discuss any differences in outlay projections and arrive at an agreed upon outlay forecast, except for APAF. |
| 2. Degree of accuracy | Outlay rates will be expressed in a tenth of a percent. |

D. SHIFTING MILITARY PAY

Even though the differences that were the cause of the FY 1990 outlay estimation crisis were addressed and apparently resolved for the outyears by the mini-summit, the question of how to resolve the FY 1990 problem remained unanswered. In July of 1989, Secretary Cheney proposed, in a letter to Congressman John Murtha, the Chairman of the Subcommittee on Defense, Committee on Appropriations, to shift the October 1st paydate for military personnel to September 30th. The result of this action would be to move the outlays associated with this paydate from FY 1990 to FY 1989, erasing three quarters of the \$3.8 billion outlay issue. [Ref. 22]

The reaction in Congress to this proposal was sharply negative. Many in Congress felt that this was an accounting gimmick that did not produce real savings or real gains in deficit reduction. Others in Congress, sympathetic to DoD's outlay problem, were concerned that if DoD were allowed to achieve savings in this manner, other governmental agencies would follow suit. The result would be further erosion of the deficit reduction effort. However, it was, at the time, completely within the power of Secretary Cheney to order the payday shift and he did just that. [Ref. 22]

In response to Secretary Cheney's action on the payday shift, the Chairman of the House Armed Services Committee offered an amendment to the defense authorization bill prohibiting the Secretary of Defense from shifting paydays.

This amendment passed 326 to 97. The Senate Armed Services Committee approached the issue by ordering DoD to control outlays so they did not exceed the budgeted ceiling. That is, language was added to the Senate-passed version of the FY 1990 defense authorization bill directing the Department of Defense to insure that it did not exceed the \$299.2 billion outlay cap stipulated in the BBA. But because Congress did not approve a final defense authorization bill until November, neither of these proposals was effective. The paydate was shifted and the outlays occurred in FY 1989 before the authorization bill became law. [Ref. 23]

E. SHIFTING THE DEFENSE PROGRAM MIX

As the paydate controversy was unfolding, The Senate Democratic leadership proposed a major compromise to the outlay impasse. This proposal was made in a letter signed by Senator Byrd, Chairman of the Senate Appropriations Committee, Senator Sasser, Chariman of the Senate Budget Committee, and Senator Inouye, Chairman of the Defense Appropriations Subcommittee, and had the backing of Senate Majority Leader Mitchell. The proposal would require DoD to come up with shifts in the defense program mix to save \$1.9 billion in outlays -half of the problem amount. Although the letter, dated August 4th, was very vague in its wording, its implication was that the remaining \$1.9 billion of outlay discrepancies would be ignored. [Ref. 5]

In response to the Democratic proposal, Secretary Cheney made a list of recommended program shifts, and submitted it to the authorization bill conferees on the 29th of September. These recommended changes to defense accounts would keep all of the BA agreed to in the BBA but satisfy the CBO in meeting the outlay calculations. [Ref. 13]

Acceptance of the scoring change affecting the USS ENTERPRISE overhaul/refueling and the aircraft modification kits was a major change in the program mix. These two programs played a major role in solving the outlay conflict. They were allowed to be scored as procurement activities, which have slow spendout rates, rather than O&M activities, which spend out much faster. This change allowed DoD to retain all of the BA allowed by the BBA, while moving outlays to later years and meeting the BBA outlay target for FY 1990. Table 9 summarizes the changes proposed by Secretary Cheney. [Ref. 13]

The recommendations submitted by Secretary Cheney were adhered to quite closely in the final defense authorization bill. The final appropriations bill took Cheney's recommendations even further, cutting an additional \$.4 billion from O&M, \$.6 billion from RDT&E and \$.5 billion from procurement.

F. HOW THE NAVY WAS AFFECTED

The Navy did not experience a significant adverse impact as a consequence of the outlay dispute. In the final totals

authorized and appropriated by both bodies of Congress, the Navy was funded to at least 100 percent of its request in all but one major account [Ref. 1]. The only account that was

TABLE 9
CHENEY PROPOSAL
CHANGES IN BA REQUESTED
(\$ IN BILLIONS)

	<u>FY 1990 Request</u>	<u>Change to Request</u>	<u>Total</u>
Milpers	\$79.2	-0.4	78.8
O&M	90.2	-3.8	86.4
Procurement	78.8	+5.7	84.4
Mod. Kits		(+3.4)	
ENTERPRISE		(+1.3)	
R&D	39.6	-1.7	37.9
Milcon & FH	8.1	-0.2	7.8
DOE	9.4	+0.3	9.7
Drugs	---	+0.6	0.6
Other	0.2	----	0.2

funded below the requested amount was the O&M/Stock Fund account, which was funded at only about 92 percent.

As a result of the shift in the defense program from fast to slow spending accounts the Navy received a large increase in BA for its procurement account. This account was funded at 117.9 percent and 118.9 percent of its request by the authorization and appropriations conferences, respectively.

IV. THE BYRD AMENDMENT

On September 27th the Senate passed an amendment to the Transportation Appropriations bill that would increase spending on anti-drug programs by \$3.2 billion. The amendment was proposed by Senator Robert C. Byrd, D-W.Va., Chairman of the Senate Appropriations Committee, and thus bears his name. The manner in which this increase was to be funded affected spending for all other appropriation accounts, including those for defense. [Ref. 6]

Enactment of the amendment would bring an increase of nearly sixty percent of the total funds for anti-drug programs. The purpose of the bill was to increase monies both for enforcement and education/rehabilitation. [Ref. 6]

The amendment was introduced in response to a speech by President Bush on September 5th calling for additional spending on drug programs. Bush initially wanted about a forty percent increase in anti-drug spending, but legislators were anxious to put their mark on this very political issue. The proposal by the president was for approximately \$2.1 billion, most of which was to go to enforcement rather than education. The additional \$1.1 billion contained in the Byrd amendment would go primarily to educational and rehabilitation programs. [Ref. 24]

The debate over where the money would be spent took nearly two weeks. Most Congressmen wanted to be associated in some way with anti-drug legislation and have a mark on it.

In order to pay for this increase in drug programs, a .43 percent reduction in all appropriations bills would be necessary. The original proposal by Senator Byrd called for .3 percent of the cuts to be taken across the board, that is, from all discretionary appropriations accounts. The remaining .13 percent would be at the discretion of the Senate and House conferees on the final appropriations bills. [Ref. 6]

The defense budget was exempted from this allocation plan. By virtue of its size, defense appropriations would absorb the greatest dollar figure of the cuts. Because of this, all of the money from defense would be discretionary. Rather than cutting all defense accounts across the board by 0.3 percent, the entire amount of the defense contribution to the anti-drug spending initiative would be determined by the chairmen and senior Republicans of the Armed Services and Defense Appropriations committees. [Ref. 6]

The House objected to this formula for allocating cuts. Many House members felt that the total amounts, not just 0.13 percent, should be discretionary. Each subcommittee would be given a dollar figure that was required to be cut and they would decide where to cut [Ref. 6]. In other words, all accounts should be given the discretion that defense would be

given in the Senate proposal. This approach was finally adopted by the Congress.

The dollar figure given for defense to cut was \$1.318 billion in BA and \$800 million in outlays [Ref. 25]. Because the cuts were not to be enforced across the board, the exact impact on DoD and the Navy is very difficult to assess.

The amendment required that the Senate and House agree on a new set of 302(b) allocation numbers in accordance with the 1974 Budget Act, to reflect this increase and stay within the BBA and deficit reduction caps [Ref. 26]. However, the final Defense Authorization bill does not reflect this number, authorizing \$295.3 billion of the \$295.6 billion in BA agreed to in the BBA and reflected in the revised budget request for function 051. [Ref. 1]

At \$294.0 billion, the final Defense Appropriations bill is \$1.6 billion lower than the request. Of this, \$1.18 billion was to go to the emergency drug funding package proposed in the Byrd amendment. An additional \$300 million was taken from DoD and given to the Coast Guard for their anti-drug operations. These two reductions total more than was expected from the Byrd amendment. [Ref. 14]

When the DoD Comptroller, Mr. Sean O'Keefe, explained the effects of sequester on the DoD budget in November (discussed in chapter V), he noted that his figures did not reflect the Byrd amendment. They probably did not reflect it because no determination had been made on where the cuts were to come

from at that time. This briefing took place before the final appropriations bill had been passed so he would have not known what the legislators had planned to do. [Ref. 7]

As was mentioned in chapter two of this paper, the Navy appropriations were funded in excess of 100 percent for all accounts except operations and maintenance. Therefore, little if any effect was felt in the Navy by this amendment to provide increased anti-drug funds.

V. SEQUESTRATION

In December 1985 Congress enacted the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177). This legislation, better known as the Gramm-Rudman Hollings Act, was to ensure a balanced federal budget by 1991. In 1987 the GRH Act was amended by the Balanced Budget and Emergency Deficit Control Reaffirmation Act (P.L. 100-119). This amendment stretched out the deficit reduction goals and ensured a balanced budget by 1993. Table 10 summarizes the original and amended GRH deficit goals. [Ref. 27]

TABLE 10
GRH DEFICIT GOALS
(billions of dollars)

<u>Fiscal Year</u>	<u>Original Goal</u>	<u>Amended Goal</u>
1986	171.9	
1987	144	
1988	108	144
1989	72	136
1990	36	100
1991	0	64
1992		28
1993		0

Included in the GRH bill is a procedure for implementing automatic budget cuts known as sequestration. Sequestration takes effect if Congress fails to enact appropriations bills and taxing laws that achieve the GRH target deficit goals by October 1st. During the FY 1990 budget process, Congress

failed to pass the necessary appropriation bills in time, and was also late in completing reconciliation legislation.

The sequestration process is supposed to follow a strict timeline. If Congress fails to cut the budget and or increase taxes sufficiently each year, dramatic and automatic spending cuts are supposed to take effect. Each event is set to ensure that the process is carried out as written. The schedule also allows time for small adjustments in the defense portion of the across the board cuts. Table 11 summarizes the GRH timeline. [Ref. 28]

TABLE 11
GRH TIMELINE

<u>Action</u>	<u>Date</u>
Initial Snapshot by CBO/OMB	15 August
Last day for President to exempt Milpers accounts	15 August
President issues initial sequester order	20 August
Fiscal year begins/order becomes effective	1 October
OMB issues revised report to Congress and President	15 October
President issues final order	15 October
Last day to offer modification of defense programs	20 October
Last day for joint resolution to modify final order	10 days after revised OMB report
Compliance order issued	15 November

The sequestration process for FY 1990 started on August 15th as required by the GRH law. At that time OMB and CBO each took a snapshot of the current spending laws in effect and the economic outlook to determine the deficit projected for FY 1990. Based on the available data if the projected deficit for FY 1990 were to exceed \$110 billion, across the board cuts would be required to reduce the deficit to the required \$100 billion level. The GRH deficit target for 1990 was \$100 billion, but a \$10 billion buffer or "float" is allowed before automatic cuts take place. That means that if Congress, by its spending and taxing legislation, comes within \$10 billion of the target, the sequester is unnecessary. However, if Congress fails to come within \$10 billion of the deficit target and a sequester takes effect, the deficit target must be met exactly, i.e. there is no float. [Ref. 29]

Since no appropriation bills had been enacted for FY 1990 at the time of this initial estimate, the deficit was calculated using FY 1989 outlays plus inflation. This is of course offset by current tax laws and economic assumptions that determine revenue totals. Using this formula the deficit was calculated on August 15th at \$116.2 billion for FY 1990. [Ref. 30]

This calculation meant that the federal government would have to cut \$16.2 billion from the budget. GRH requires that these automatic cuts come from defense and non-defense discretionary accounts equally, with a few marginal

exceptions. Those exceptions are the programs that are either fully or partially exempted from these automatic cuts.

Fully exempted programs include, but are not limited to, social security benefits, interest on the national debt, veteran's compensation, food stamps, and defense funds obligated in previous years. The list of fully exempted programs accounts for approximately half of total federal outlays. The list of partially exempted programs accounts for between 25 and 30 percent of total federal outlays. That list includes medicare and other health programs which are limited to a two percent cut. Therefore about one quarter of the federal programs must absorb the brunt of the automatic cuts. [Ref. 27]

On August 25th OMB issued the initial sequester order requiring the \$16.2 billion to be withdrawn on a prorated basis. The sequester is enacted on a prorated basis because it is assumed that Congress will pass appropriation bills that will rearrange the cuts if not reinstate the money. This way there is a time element to the sequester, and every day under a sequester dollars are lost in authority unless Congress overrides the sequester with its appropriation bill. [Ref. 27]

The GRH Act requires that all "programs, projects, and activities" subject to sequestration be cut equally. However, in order to offset the catastrophic effects of across the board cuts on defense, the president has the authority under GRH to propose a different mix of cuts. [Ref. 27]

If the president chooses to exercise this authority he may choose from two alternatives. First, he may totally or partially exempt the military personnel accounts. This is done in order that manning levels do not have to absorb drastic cuts. If this option is chosen, the outlay savings lost from military personnel must be absorbed equally by the remaining defense accounts so that the total sequester amount charged to defense remains the same. [Ref. 27]

The second alternative is for the President to propose a different mix of funding cuts in some programs to offset the cuts in other accounts. If this option is exercised, protection of spending in certain accounts must be offset by more severe cuts in other accounts. The President's proposal may not allow any account's outlays to exceed what was appropriated. This is so the president cannot pick and choose his own program mix without congressional approval, i.e. the president cannot fund SDI at a higher level than previously appropriated. It is also prohibited for the proposal to close a domestic base or cancel any program. [Ref. 27]

Under previously existing law the president has some flexibility to adjust spending requirements within the Department of Defense. The law allows the President \$3 billion that he may move between accounts in order to better manage outlays.

On October 19th the President submitted an alternative sequester report for the Department of Defense. Instead of

asking for a specific change in the mix of sequestration cuts, the President asked that the amount of funds available for transfer be increased from \$3 billion to \$6 billion. The President did not exempt the military personnel accounts from sequestration. [Ref. 7]

On November 8th the Senate Armed Services Committee held a hearing to determine the impact of a sequester on the Department of Defense. Testifying on behalf of DoD were the Deputy Chiefs of Staff from each of the services, as well as Sean O'Keefe, DoD Comptroller.

Mr. O'Keefe was the primary speaker at the hearing, and presented a DoD point paper that outlined the potential impact of sequestration on National Defense. The Comptroller's paper calculated that \$13.3 billion in new BA and \$1.7 billion in BA associated with unobligated balances would have to be cut in order to meet the outlay requirements. These figures are assuming that military personnel accounts would be subject to sequestration. If military personnel accounts were exempted, \$16.5 billion in new BA and \$2.8 billion in BA associated with unobligated balances would be required to be cut. Table 12 summarizes these cuts. [Ref. 7]

The budget cuts presented in this paper are taken from the GRH baseline amounts for National Defense, and assume a full year sequester. However, Mr. O'Keefe presented data that anticipated two other possible scenarios involving the effects of the sequester on DoD. Both of these scenarios assume that

the Milpers accounts are not exempted. The starting point or baseline that is used to figure the sequester amount is

TABLE 12
SEQUESTRATION EFFECTS
ON DOD
(in billions of 1990 \$)

<u>Account</u>	<u>Milpers not exempt</u>		<u>Milpers exempt</u>	
	<u>New BA</u>	<u>UCB</u>	<u>New BA</u>	<u>UOB</u>
Military Personnel	3.4	---	-----	---
O&M	3.8	---	6.4	---
Procurement	3.6	1.4	6.0	2.3
RDT&E	1.7	.1	2.8	.2
MilCon	.3	.1	.4	.2
Family Housing	.1	.2	---	---
Total 051	12.9	1.6	15.9	2.7
DOE	.4	.1	.6	.1
Total 050	13.3	1.7	16.5	2.8

important because the higher the baseline figure, the higher the final appropriation, all things being equal. But all things are not equal. There is a provision in GRH II that may offset part of the sequester once a full year appropriation is passed. If the appropriated amount is below the GRH baseline that appropriation has the sequester amount reduced. The amount by which the sequester is reduced is determined by comparing the baseline amount to the final appropriation amount. The sequester is reduced by the difference between these two amounts. This provision is known as the Muris rule and it would apply to the defense accounts.

The first scenario was if the Senate Appropriations bill became the final appropriation bill for defense. If this were to happen, then BA cuts of \$7.4 billion would be required.

The defense budget authority cut in this scenario is not as great as the reduction if it were from the GRH baseline. This is because special rules of the GRH act require that once fullyear appropriations are enacted, savings below the GRH baseline must be taken into account. [Ref. 7]

The second scenario of cuts assumes that the government will be funded under a continuing resolution for the entire year. The government was functioning under a continuing resolution at the time of this hearing. Funding levels for all accounts in the continuing resolution were determined by taking the lower of the House or Senate Appropriation bill for each account. This is important because the baseline from which sequester amounts are subtracted is much lower under this formula. After figuring the continuing resolution total the sequester amount required would be \$6.1 billion in BA. Table 13 summarizes the sequester impacts on DoD BA and outlays under each of the possible scenarios. [Ref. 7]

Mr. O'Keefe explained that at the current time DoD was making sequester cuts on the basis of the continuing resolution. They were doing this because law required them to use the funding law that was currently in effect. The continuing resolution was the only law in effect at that time. [Ref. 7]

TABLE 13
FY 1990 GRH IMPACT
ON DOD (051)
(in billions of dollars)

	<u>BA</u>	<u>OUTLAYS</u>
GRH Baseline		
Base	298.2	281.8
Sequester	12.9	7.8
Net	285.3	274.0
Senate Appropriations		
Base	295.4	283.6
Sequester	7.4	5.3
Net	288.0	278.3
Continuing Resolution		
Base	284.3	280.8
Sequester	6.1	5.0
Net	278.2	275.8

The committee was primarily interested in the effect the sequester would have on military personnel. Mr. O'Keefe and the assistant chiefs all explained that the effect on military personnel was going to be significant regardless of which scenario finally played out. Under both the Senate appropriations bill and the continuing resolution, \$3.3 billion in BA would have to be cut from the military personnel accounts. This number equates to having to reduce the active duty members of the military by 170,000 to 200,000 personnel. [Ref. 7]

The committee questioned all of the assistant chiefs and Mr. O'Keefe on why the administration would not exempt military personnel from the sequester if the results were this disastrous. The response in each case was that although the military could not afford the personnel cut, DoD could also

not afford the alternative. The alternative would be to exempt the Milpers accounts and take a higher cut in all other DoD accounts. [Ref.7]

The hearing concluded with most of the Senators voicing their opinions on why they would not support the administration's request to increase the transfer authority. They also expressed astonishment on how the DoD could be so calm about a sequester when they were fighting tooth and nail against significantly smaller cuts just a few months before. [Ref. 7]

On November 22nd a budget reconciliation bill was passed and much of the uncertainty associated with the sequester was ended. However, the sequester was not completely done away with in this bill, as is possible. A partial modified sequester was left in place that would have required a 1.5 percent decrease in the defense budget. [Ref. 31]

The special GRH rules that govern the implementation of sequester further reduced the impact of the defense sequester. One such rule, called the "Muris" rule, requires that those activities that have already made budget cuts below the GRH baseline be given credit for those cuts once a sequester takes effect and a final fullyear appropriation bill is passed. The calculation of the size of the sequester for the national defense function would have been \$4.6 billion in BA and \$2.87 billion in outlays without the special rules. [Ref. 31]

After invoking the Muris rule the calculations for national defense indicated \$2.7 billion reduction in BA and \$2.05 billion in outlays, saving \$1.9 billion in BA and \$.82 billion in outlays. This amounted to less than a one percent cut in spending. This doesn't mean that DoD was not impacted at all by this cut. The fact that BA was reduced significantly more than outlays under these rules meant that the fast spending accounts would take most of the sequester. [Ref. 31]

Military personnel and operations and maintenance accounts took the majority of the cuts from the sequester. The actual impact of this action was unknown at the time, but in January 1990 Secretary Cheney proposed a reprogramming action to the military personnel accounts in order to make up the difference. It was not until well into FY 1990 that this action was complete, and it proved to be a significant cause of friction between DoD and Congressman Les Aspin, Chairman of the House Armed Services Committee.

VI. CONCLUSIONS

The budget process has grown in complexity, as both the size and the anxiety regarding the deficit have grown. Dramatically increasing portions of each year's budget are going to nondiscretionary expenditures. This causes people to fight aggressively for a piece of the shrinking discretionary pie.

Whether the size of the deficit and the budget have an effect on the economy or not is not important for the purpose of this paper. The perception that the budget is out of control and that deficits must be reduced is in place. It is a political issue that elected politicians must deal with. They use the deficit to get elected and promise to reduce it. Others promise to use what remains of discretionary spending in the budget to help their constituents.

Increased emphasis on the size of the government budget and more specifically the deficit, has had some positive effects. Presumably, we have been cutting some of the fat out of the budget for the last several years. Whether the government is better managing programs and funds is a matter of opinion. Certainly when we ask managers to do the same mission with fewer funds, some of the fat must have been cut out.

Increased Congressional intervention in the management of the government has also been a consequence of the increased attention on the budget. The easiest way legislators see to control government actions is through the budget process. Constituents accept and expect their elected officials to watch their tax dollars like a hawk.

Whether this increased congressional presence in the budget is good or bad is not important. The fact is that this condition exists, and budget officials in the administration and Congress must deal with it. DoD and the Navy are no exceptions, as persons working in the budget shops of these organizations must expect to deal with Congress. This paper has attempted to outline where congressional intervention may occur and what types of events DoD and DoN budget officers may need to address.

The FY 1990 Congressional budget process was a complicated and unique endeavor. The FY 1990 process is different because of the way the events unfolded, but it was exactly like previous years in that politics and confrontation still played a major role.

The Bipartisan Budget Agreement reached between the administration and congressional leaders was supposed to allow the process to flow more easily. This paper points out that that was not the case. While the BBA established the limits of spending in each major budget function, it did not alleviate political fights over program mixes, and it failed

to anticipate the consequences for the defense budget of the BA-outlay controversy, the Byrd amendment and the partial sequester.

The BBA also caused, or at least exacerbated, the conflict over outlay estimation. It brought to a head a conflict that had, for the most part, been ignored in past years. If anything positive has come out of the FY 1990 exercise it would have to be the mini-summit that helped minimize the outlay estimating problem for future years.

As one of the largest functions of discretionary spending, the national defense (050) and DoD (051) accounts were at the center of all the controversy. The fight over program mixes and the need to save constituent's jobs was unusual this year because of the focus on deficit reduction. This focus, which brought about the BBA, complicated the actions of the congressional oversight committees.

In order to fund favorite programs individual legislators were forced to find offsets from other programs that would allow the BA and outlay figures to remain the same. This meant, in theory, that if a congressman wanted a program inserted into the defense budget it would require him to find and propose cancellation of a program or set of programs with the exact same BA and outlay mix.

Two of the most political programs in the FY 1990 budget process were Navy/Marine Corps programs -the V-22 and the F-14D. Both of these programs were cut completely in the DoD

revised budget request. Political interests and the power of legislators wishing to preserve these programs won out and both were funded to a limited degree. This increased the Navy portion of the budget for FY 1990. Whether the program mix that was forced on DoD will effect them in future years is yet to be determined.

The technical estimating difference of outlays is a significant problem that budget officials must continue to monitor. The mini-summit has decreased the likelihood of a reoccurrence but has not done away with it. Secretary Cheney's presentation of detailed information and statistical records helped gain credibility for the department. Future budget officials should be well versed in the history of this event and be prepared to react again.

The BA-outlay problem engulfed the budget process for many months and may have been a primary reason for the length of the process. The political side of the process slows it down enough without injecting these technical problems to slow it even further.

The Byrd amendment may not be repeated again in future years but other amendments like it may very well be come up. While this year's event was fairly insignificant because of its size, future events may not be so small. In 1989 congressional smoke and mirrors helped the Department avoid a sizable cut. Such amendments in the future, coupled with the increased emphasis on eliminating smoke and mirrors, will have

to be dealt with. The Department of Defense must be prepared for such events and remain flexible.

The FY 1990 defense sequester was alleviated by the fact that the Department had already absorbed numerous cuts in the regular appropriations process. If the Department expects shrinking budgets in the future, this will offer limited protection from the threat of a sequester. But, as soon as the budget total levels off, even in nominal dollars, this could be a significant event to deal with. Once again flexibility on the part of budget officials is the best way to deal with this issue.

The FY 1990 budget process was as unique as every year's process is. There were some events that budget officials can learn from and be prepared to encounter in the future. This presentation of the process should be an aid to those required to deal with these issues.

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